

Message Text

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PAGE 01 JAKART 06671 230823Z

ACTION EA-09

INFO OCT-01 ISO-00 EB-07 COME-00 OES-07 L-03 /027 W

-----230954Z 002523 /13

R 230742Z MAY 77

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 1245

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E.O. 11652: N/A

TAGS: ECRP, EINV, EMIN, ID

SUBJECT: GOI-RTI THIRD-GENERATION MINING AGREEMENT

REF: A. STATE 116357, B. JAKARTA 3498

1. AS PREDICTED REF B, AND AS REPORTED IN MEDIA, GOI AND RIO TINTO INDONESIA INITIALLED THIRD-GENERATION MINING CONTRACT IN EARLY APRIL. CONTRACT, HOWEVER, HAS NOT YET BEEN SIGNED; ON INDONESIAN SIDE IT WAITS PRESIDENTIAL APPROVAL. OUR CONTACT IN MINISTRY OF MINES GROANINGLY ADMITS HE HAS BEEN PREDICTING FINAL APPROVAL ANY DAY NOW FOR ALMOST THREE WEEKS; HE HAS PROMISED TO PROVIDE US WITH FINAL TEXT AS SOON AS IT IS SIGNED. NEITHER RTI NOR GOI EVINCES ANY REAL WORRY OVER DELAY.

2. HARDENING OF TERMS FROM SECOND-GENERATION CONTRACT AS FOLLOWS:

(A) FOREIGN EXCHANGE REGIME: FOREIGN EXCHANGE GENERATED FROM FUTURE MINERAL PRODUCTION TO BE HELD OVERSEAS IN ACCOUNTS DESIGNATED BY BANK INDONESIA; THERE WILL BE A FICTION OF AN EXCHANGE TO AND FROM RUPIAH ON WHICH BI WILL EARN FEE OF 3/8'S OF 1 PERCENT. UNDER OLDER CONTRACTS, COMPANIES COULD HANDLE FOREX AS THEY WISHED AFTER REPATRIATING REQUIRED PAYMENTS TO INDONESIA.

B. THERE WILL BE AN EXPORT TAX ON 10 PERCENT ON UNPROCESSED ORES; TAX WILL BE REDUCED DEPENDING ON TYPE

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OF MINERAL AND DEGREE OF PROCESSING. THERE WILL BE NO EXPORT TAX, FOR EXAMPLE, ON COPPER CONCENTRATES. SECOND-GENERATION CONTRACT HAD NO EXPORT TAX PROVISIONS.

C. A WINDFALL PROFITS TAX WILL BE LEVIED WHEN RETURN ON INVESTMENT EXCEEDS 15 PERCENT OVER THREE YEAR PERIOD. SECOND-GENERATION CONTRACT HAD NO WINDFALL PROFITS PROVISION.

D. FIFTY-ONE PERCENT OF SHARES WILL BE OFFERED
TO INDONESIAN INVESTORS, GOVERNMENT OR PRIVATE, WITHIN
TEN YEARS OF BEGINNING OF MINERAL PRODUCTION. SECOND-
GENERATION CONTRACT INCLUDED PROVISION FOR OFFER OF
20 PERCENT OF SHARES TO INDONESIANS. CONTRACT WILL
INCLUDE COMPLICATED PROVISIONS DETAILING HOW SHARES
ARE TO BE EVALUATED, PROCEDURES FOR INDEXING OF INVESTMENT, ETC.

3. WE CAN DETECT NO ONRUSH OF NEW INVESTORS IN MINERAL
SECTOR IN INDONESIA, RTI, AS PREVIOUSLY REPORTED, BELIEVES
CONTRACT IS "A LITTLE BETTER" THAN TERMS AVAILABLE
IN SIMILAR DEVELOPING COUNTRIES.
NEWSOM

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MINING, AGREEMENTS, CONTRACTS
Control Number: n/a
Copy: SINGLE
Sent Date: 23-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977JAKARTA06671
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770182-1192
Format: TEL
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770529/aaaaaywa.tel
Line Count: 75
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 39c3bf8b-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 STATE 116357, 77 JAKARTA 3498
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 11-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2410371
Secure: OPEN
Status: NATIVE
Subject: GOI-RTI THIRD-GENERATION MINING AGREEMENT
TAGS: ECRP, EINV, EMIN, ID
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/39c3bf8b-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009